
Accounting for Construction Contracts

Revenue Rulings and Procedures

METHOD OF ACCOUNTING

Revenue Rulings

Revenue Ruling 66-247 1966-2 CB 198

The costs incurred by a taxpayer in the construction of a house for speculative sale (including the cost of the land) must be capitalized regardless of the taxpayer's overall method of accounting.

Revenue Ruling 70-67 1970-1 CB 117

An architect who provides drafting and supervisory services on construction projects is not allowed to report income on the completed contract method. The work done by the architect is in the nature of personal services.

Revenue Ruling 80-18 1980-1 CB 103

A taxpayer providing engineering services is not entitled to adopt or use either the completed contract or percentage of completion method of accounting.

Revenue Ruling 82-134 1982-2 CB 88

A taxpayer, who by contract furnishes engineering services and construction management to clients, is not entitled to use the completed contract method of accounting.

Revenue Ruling 84-32 1984-1 CB 129

A painting contractor who paints industrial and commercial buildings, highways and railroad bridges, and industrial plants is not entitled to use the completed contract method of accounting.

Revenue Ruling 92-28 1992-1 CB 153

This ruling permits a taxpayer to use different method of accounting for large and small long-term contracts within the same trade or business.

Revenue Procedures

Revenue Procedure 2000-22 2000-20 I.R.B.

This revenue procedure provides that the Commissioner of Internal Revenue will exercise his discretion to except a qualifying taxpayer with average annual gross receipts of \$1 million or less from the requirements to account for inventories and to use an accrual method of accounting for purchases and sales of merchandise. This revenue procedure also provides the procedures by which a qualifying taxpayer may obtain automatic consent to change to the cash receipts and disbursements method of accounting (the cash method).

Revenue Procedure 2001-10 2001-2 I.R.B.

This revenue procedure supercedes Revenue Procedure 2000-22 (above). This procedure provides that the Commissioner of Internal Revenue will exercise his discretion to except a qualifying taxpayer with average annual gross receipts of \$1 million or less from the requirements to account for inventories. This revenue procedure also provides the procedures by which a qualifying taxpayer may obtain automatic consent to change to the cash receipts and disbursements method of accounting (the cash method) and to a method of accounting for inventory as materials and supplies that are not incidental.

General Counsel Memoranda

GCM 39803

Engineering, architect, and construction management services that are provided as part of a construction contract are allowed to use the completed contract method or the percentage of completion method.

CHANGE IN METHOD OF ACCOUNTING

Revenue Procedures

Revenue Procedure 97-27 1997-1 CB 680

This revenue procedure provides the general procedures for obtaining the consent of the Commissioner of Internal Revenue to change a method of accounting for federal income tax purposes.

Revenue Procedure 99-49 1999 I.R.B. 456

This revenue procedure provides the automatic consent procedures for obtaining the consent of the Commissioner of Internal Revenue to change a method of accounting for federal income tax purposes.